



SPECIFICATIONS AND INSTRUCTIONS  
FOR THE SUBMISSION OF A PROPOSAL FOR  
THE FINANCIAL AUDITS OF  
EXECUTIVE DEPARTMENTS, OFFICES, AND AGENCIES  
OF THE  
STATE OF HAWAII

Comptroller  
State of Hawaii  
Form AUD 101

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## I. INTRODUCTION

Section 26-6, Hawaii Revised Statutes, states that the Comptroller shall conduct after-the-fact audits of the financial accounts of all state departments to determine the legality of expenditures and the accuracy of accounts. The Comptroller intends to conduct financial audits of the executive departments, offices, and agencies of the State of Hawaii, and plans to employ the services of qualified certified public accountants to conduct those audits.

These specifications describe the scope and nature of the work required of the certified public accountant (hereinafter referred to as the "CONTRACTOR"), to be engaged by the director of the executive department, office, or agency of the State of Hawaii (hereinafter referred to as the "DIRECTOR"), to conduct a financial audit of the department, office, or agency of the State of Hawaii (hereinafter referred to as the "STATE").

The instructions for submitting a proposal are intended to assist the CONTRACTOR in preparing the proposal to conduct the audit. **Unless otherwise expressly provided in the audit contract, all provisions, as applicable, of these specifications and instructions shall be made a part of the audit contract to be entered in by the CONTRACTOR and the STATE.**

## II. SPECIFICATIONS

### 1. General.

- a. The CONTRACTOR shall be licensed and possess a current permit to practice public accountancy in the State of Hawaii.
- b. The CONTRACTOR shall be responsible for the professional quality, technical accuracy, timely completion, and coordination of all audit services provided under the audit contract.
- c. Approval by the STATE of the audit report shall not in any way relieve the CONTRACTOR of responsibility for the technical accuracy of the audit report.

### 2. Audit Objectives. The objectives of the audit are:

- a. To provide a basis for an opinion by the CONTRACTOR on the fair presentation of the STATE's combined financial statements.
- b. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the STATE is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and, if applicable, the federal government.
- c. To determine whether the STATE's internal control is adequate in assuring that there is

effective control over and proper accounting of revenues, expenditures, assets, and liabilities.

d. To determine, if applicable, whether the STATE has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable federal laws and regulations.

e. To determine whether the STATE has complied with the laws, regulations, contracts, and grants that may have a material effect on the combined financial statements and, if applicable, on each major federal financial assistance program.

3. Audit Scope. The audit shall include an examination of the STATE's combined financial statements, internal control, and compliance with laws, regulations, contracts, and grants. The CONTRACTOR shall:

a. Conduct a general audit of the financial transactions, books, and accounts of the STATE for the fiscal year(s) specified on the project information sheet. The term "general audit" means a test audit of the financial transactions for the period specified; the CONTRACTOR is not expected to verify every transaction but may perform the general audit based upon tests and samples. The general audit shall include tests of the financial data to provide the CONTRACTOR with a basis to report on the fair presentation of the combined financial statements and on whether expenditures and other disbursements have been made and all revenues and other receipts to which the STATE is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and, if applicable, the federal government. The audit shall include all fund types and account groups, except as specified on the project information sheet.

b. Examine the internal control to determine its adequacy in assuring that there is effective control over and proper accounting of revenues, expenditures, assets, and liabilities.

c. Examine, if applicable, the internal control to determine its adequacy in providing assurance that federal financial assistance programs are being managed in compliance with the applicable federal laws and regulations.

d. Examine, if applicable, the federal financial assistance programs for compliance with the terms of the applicable grant agreements and pertinent federal laws, regulations, and circulars.

4. Audit Standards. To meet the requirements of these specifications, the audit shall be performed in accordance with generally accepted auditing standards as prescribed by the American Institute of Certified Public Accountants (AICPA), and with those standards and procedures set forth in the AICPA State and Local Government Committee's Audit and Accounting Guide entitled *Audits of State and Local Governmental Units* (Revised Edition). The CONTRACTOR shall also conduct the audit in accordance with the standards for financial audits set forth in the U. S. General Accounting Office's *Government Auditing Standards* (1994 Revision), and the provisions of the Office of Management and Budget's *Circular A-133 Compliance Supplement*.

5. Audit Activities.

a. Legal Authority. In ascertaining whether the financial transactions are in compliance with the applicable laws, rules and regulations, administrative directives, and policies and procedures, the CONTRACTOR shall, at a minimum, become sufficiently knowledgeable with the applicable sections of the following reference documents:

- 1) Federal laws relating to each major federal financial assistance program of the STATE.
- 2) Applicable titles of the Code of Federal Regulations promulgated to implement the provisions of the above federal laws.
- 3) Federal circulars:
  - a) Office of Management and Budget Circular A-87.
  - b) Office of Management and Budget Circular A-102 and Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments.
  - c) Office of Management and Budget Circular A-133.
- 4) Constitution of the State of Hawaii.
- 5) Hawaii Revised Statutes:
  - a) Laws having general application:
    - Chapter 26 - Executive and Administrative Departments
    - Chapter 27 - State Functions and Responsibilities
    - Chapter 91 - Administrative Procedures
    - Title 7 - Public Officers and Employees.
  - b) Laws relating to fiscal matters:
    - Chapter 29 - Federal Aid
    - Chapter 102 - Concession of Public Property
    - Chapter 103 - Expenditures of Public Money and Public Contracts
    - Chapter 106 - Inventory, Accounting and Disposal of Government Assets
    - Chapter 171 - Public Lands, Management and Disposition of.

c) Laws relating to the STATE.

6) Applicable rules and regulations, and administrative directives issued by the following agencies relating to the STATE's financial transactions, accounting systems, and internal controls:

- a) Office of the Governor
- b) Department of Accounting and General Services
- c) Department of the Attorney General
- d) Department of Budget and Finance
- e) Department of Human Resources Development.

b. Audit Workpapers. The CONTRACTOR shall, at any time during and subsequent to the completion of the audit, make available to the STATE for its inspection and review, the workpapers developed during the audit, including among others, the following:

- 1) The audit program and internal control questionnaire.
- 2) The working trial balance.
- 3) Schedules, computations, analyses, audit notes, confirmation letters and replies, and other data representing a record of work done in support of account transactions and balances, and systems analysis.
- 4) Documents obtained and other workpapers relating to the audit.

The workpapers shall not be made available to others except by mutual consent of the STATE and the CONTRACTOR. The workpapers shall be retained for a minimum of three (3) years from the date of the audit report, unless the CONTRACTOR is notified in writing by the STATE to extend the retention period.

c. Discovery of Unusual Condition. If at any time during the audit, the CONTRACTOR discovers a deficiency that is highly unusual or of such a nature as to require immediate correction or of such character that to complete the audit a significant amount of time or resources beyond that initially contemplated by the parties to the audit contract would be required, the CONTRACTOR shall immediately notify the STATE of the finding in writing. If the deficiency is of such a character as to require the expenditure of additional time or resources, the CONTRACTOR shall include in the notification an estimate of the additional time and cost that would be required. The CONTRACTOR shall proceed to complete the audit only upon written authorization of the STATE.

## 6. Audit Report.

a. Preliminary Draft of Audit Report. The CONTRACTOR shall prepare a preliminary draft of the audit report and submit the number of copies specified on the project information

sheet, to the STATE and discuss the same with the STATE.

b. Final Audit Report. The CONTRACTOR shall deliver the number of copies specified on the project information sheet of the final audit report to the STATE.

c. Form and Content of Audit Report. The audit report shall be addressed to the DIRECTOR, and shall contain the following parts:

- 1) Title.
- 2) A foreword.
- 3) A table of contents.
- 4) An introduction consisting of:
  - a) an explanation or statement of the purpose of the report, including, if applicable, a statement that the audit was made in accordance with the provisions of Office of Management and Budget Circular A-133;
  - b) a brief description of the scope of the audit; and
  - c) an outline of the organization of the material in the report.
- 5) A report on financial statements consisting of:
  - a) a statement of the CONTRACTOR's scope and opinion;
  - b) combined financial statements;
  - c) a schedule of expenditures of federal awards, if applicable, showing the total expenditures for each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*; and
  - d) supplementary statements, schedules, and comments.
- 6) A report on compliance and on internal control over financing reporting based on an audit of the combined financial statements performed in accordance with *Government Auditing Standards* consisting of:
  - a) a statement of the CONTRACTOR's scope of the tests performed of the STATE's compliance with laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a material effect on the combined



financial statements;

b) a statement of the CONTRACTOR's scope of the tests performed of the STATE's internal control over financial reporting; and

c) disclosure of all significant findings.

7) A report on compliance with requirements applicable to each major federal financial assistance program and internal control over compliance in accordance with Office of Management and Budget Circular A-133 consisting of:

a) a statement of the CONTRACTOR's scope of the tests performed of the STATE's compliance with laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on a major federal financial assistance program;

b) an opinion as to whether the STATE has complied with the laws, regulations, contracts, and grants which could have a direct and material effect on each major federal financial assistance program;

c) a statement of the CONTRACTOR's scope of the tests performed of the STATE's internal control over compliance with requirements that could have a direct and material effect on a major federal financial assistance program; and

d) disclosure of all significant findings.

8) A schedule of findings and questioned costs consisting of:

a) a summary of the CONTRACTOR's audit results;

b) findings relating to the combined financial statements which are required to be reported in accordance with generally accepted government auditing standards; and

c) findings and questioned costs for federal awards which shall include audit findings as defined in Office of Management and Budget Circular A-133.

9) A summary schedule of prior audit findings containing the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to federal awards.

10) A corrective action plan that addresses each audit finding included in the current year's audit report. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and

the anticipated completion date. If the STATE does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

7. Data Collection Form. The CONTRACTOR shall prepare a data collection form which states whether the audit was completed in accordance with Office of Management and Budget Circular A-133 and provides information about the STATE, its federal programs, and the results of the audit. A senior-level representative of the STATE shall sign a statement to be included as part of the data collection form certifying that the STATE complied with the requirements of Office of Management and Budget Circular A-133, the data collection form was prepared in accordance with Office of Management and Budget Circular A-133 (and the instructions accompanying the data collection form), and the information included in the data collection form, in its entirety, are accurate and complete. The CONTRACTOR shall sign a statement to be included as part of the data collection form that indicates, at a minimum, the source of the information included in the data collection form, the CONTRACTOR's responsibility for the information, that the data collection form is not a substitute for the reporting package described in Office of Management and Budget Circular A-133, and that the content of the data collection form is limited to the data elements prescribed by the Office of Management and Budget.

### **III. BUDGET AND TIME LIMITATIONS**

1. Budget Limitations.

a. The total sum to be allocated for conducting the audit shall be limited to the extent of funds appropriated for this purpose and the continued availability of such funds during the course of the audit for the first fiscal year. Funds for the remaining fiscal years are contingent upon the anticipated funding of the total sum through the normal budget process.

b. The method of payment for services provided by the CONTRACTOR, whether in lump sum or in increments, shall be agreed to mutually by the CONTRACTOR and the STATE. Should progress or incremental payments be agreed upon as the method of payment, the following conditions shall apply:

1) Progress payments shall be made in accordance with the customary billing practices of the CONTRACTOR upon submission of a certified statement of the hours of services actually rendered and the cost actually incurred during the period covered by the request for progress payment; provided that the cumulative amount of progress payments (exclusive of the final payment) shall not exceed 95% of the contract amount.

2) The last installment or final payment shall be made only after the CONTRACTOR has completed all of the work required under the audit contract to the satisfaction of the STATE and has submitted to the STATE: (1) a certified statement of the number of man-hours of service rendered by the various personnel engaged in this

audit and of the out-of-pocket expenses actually incurred; and (2) in accordance with Section 103-53, Hawaii Revised Statutes, a tax clearance from the Director of Taxation, State of Hawaii, and the Internal Revenue Service, U.S. Department of the Treasury, showing that all delinquent taxes levied or accrued against the CONTRACTOR under state statutes and the Internal Revenue Code have been paid.

2. Time Limitations. The timetable set forth on the project information sheet shall be followed to the closest extent possible. This timetable, however, may be modified by the STATE upon justifiable reasons submitted in writing by the CONTRACTOR and upon finding that such modifications would not jeopardize the successful completion of the audit.

#### **IV. PROPOSAL**

In preparing the proposal for the audit, the CONTRACTOR shall describe fully the following:

1. Methodology. The plan for and the approach, method and procedures that the CONTRACTOR intends to take in performing the audit. The proposed phases and steps to be followed and the tests and standards to be used in performing the work required shall be outlined.

2. Description of Firm. The CONTRACTOR's background, staff and work previously conducted, as outlined below:

- a. Background:

- 1) Describe the nature of services provided by the firm.
- 2) Show how the firm is organized to manage the operation of the audit.

- b. Staff:

- 1) Give the total full-time staff currently employed by the firm in Hawaii by categories (type of services and staff classification).

- c. Previous work:

- 1) Describe briefly any work done (especially the experience of the local office) which is similar or related to the audit called for by these specifications.
- 2) Give titles of previous reports or publications.

3. Resources To Be Used. The resources that the CONTRACTOR intends to commit to the work, including the name and qualifications of, the scope of the work contemplated for, and the amount of time to be devoted by each of the firm's personnel and that of any subcontractors that the

firm intends to engage. The amount of time devoted will be used to negotiate the fee for audit services.

4. Time Period of Audit. The CONTRACTOR's estimate of the time required to complete the work, including an estimate of the dates on which work can commence and a final report will be submitted.

5. Submittal of Proposal.

a. All proposals for conducting the audit as outlined herein shall be submitted to the STATE at the following address:

State of Hawaii  
Department of Accounting and General Services  
Audit Division  
1151 Punchbowl Street, Room 230  
Honolulu, Hawaii 96813

b. Proposals shall be submitted to the STATE in accordance with the requirements stated on the Notice of Request for Proposals from the Comptroller.

## **V. EVALUATION OF PROPOSALS**

1. Evaluation Criteria. The evaluation of proposals will be conducted by a screening committee in accordance with an established proposal evaluation plan. The evaluation criteria are listed below in the relative order of their importance:

- a. Resources to be used.
- b. Previous work experience.
- c. Methodology.
- d. Time period of audit.

2. Proposal Rejection. Submission of additional terms, conditions, and/or agreements with the proposal will result in proposal rejection.

3. Offer Acceptance Period. In order to allow for an adequate evaluation, the STATE requires an offer in response to this solicitation to be valid and irrevocable for 60 days after the due date and time.

4. Award of Audit Contract. The Comptroller shall award the audit contract to the responsible firm whose proposal is most advantageous to the STATE, based on the evaluation criteria enumerated in paragraph 1 above. Cost shall not be the major factor in determining which proposal is the most advantageous to the STATE.

Form AUD 101  
Attachment 1

State of Hawaii  
Department of Accounting and General Services  
Audit Division

**General Information**

Request For Proposals Number:

Department Requesting Audit Services:

Division/Office/Agency:

Firm Name:

Federal ID No.:

General Excise Tax No.:

Business Address:

Telephone and FAX No. of Hawaii Office:

Telephone:

FAX:

Name of Contact Person in Hawaii Office:

Telephone No.:

Email:

External Quality Control Program:

1. Prepared by:
2. Date of latest external quality control review:
3. If review will expire during fiscal year, please indicate scheduled review date:

Does your audit staff who will be assigned to the audit meet the CPE requirements as outlined in *Government Auditing Standards* (1994 Revision)? ( ) Yes ( ) No

In accordance with Section 103-53, Hawaii Revised Statutes, a tax clearance from the Director of Taxation, State of Hawaii, and the Internal Revenue Service, U.S. Department of the Treasury, showing that all delinquent taxes levied or accrued against a CPA under state statutes and the Internal Revenue Code have been paid. Have you obtained such a tax clearance prior to submitting this proposal? ( ) Yes ( ) No

Date of last tax clearance: \_\_\_\_\_.

**Methodology**

Recommended topics to be considered in your reply.

1. Audit Objectives and Scope.

2. Audit Approach.

3. Procedures.

Note: If you wish to present your methodology in a narrative format, please include the above topics in your narrative.

**Description of Firm**  
**General Information**

Background:

Number of Personnel in Your Present Organization:

	<u>Audit</u>	<u>Tax</u>	<u>Management Consulting</u>	<u>Support</u>	<u>Total</u>
Principals	_____	_____	_____		_____
Certified Public Accountants, exclusive of principals	_____	_____	_____		_____
Professional staff, exclusive of principals and CPAs	_____	_____	_____		_____
Clerks, typists and other supporting staff				_____	_____
Total	=====	=====	=====	=====	=====

Please do not double count your employees between audit and other categories. List each employee under only one category. If an employee works in more than one category, list the employee in the category where the majority of the employee's time is spent.

Form AUD 101  
Attachment 4

State of Hawaii  
Department of Accounting and General Services  
Audit Division

**Description of Firm**

Previous Government or Similar Work Experience Within Past Five Years

<u>Agency/Client</u>	Type of Service <u>(Financial Audit/Single Audit/Accounting Services)</u>	Fiscal <u>Year</u>	No. of <u>Actual Hours</u>
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**Resources To Be Used**  
**Personal History Statement of Principals Within Your Firm**

Name:

Position on This Audit Engagement:

Position with Firm:

Total

As Principal  
in This Firm

As Principal  
in Other Firms

Other Than  
Principal

Years of Experience:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Resident of Hawaii Since:

CPE Requirements: ( ) Yes ( ) No

(In accordance with *Government Auditing Standards*.)

Education (College, Degree, Year, Specialization):

Membership in Professional Organizations:

License (Type, Year, State):

Responsibilities on Previous Government Audit, Accounting Services and Consulting Engagements:

Form AUD 101  
Attachment 6

State of Hawaii  
Department of Accounting and General Services  
Audit Division

**Resources To Be Used**  
**Key Management Staff Other Than Principals**

Name:

Position on This Audit Engagement:

Major Responsibilities with the Firm:

CPE Requirements: ( ) Yes ( ) No  
(In accordance with *Government Auditing Standards*.)

Years of Experience:

Resident of Hawaii Since:

Education (College, Degree, Year, Specialization):

Membership in Professional Organizations:

License (Type, Year, State):

Note: An audit manager should not be listed if the manager has already been assigned to another state audit contract awarded to your firm. If the manager is listed again, please provide an explanation. Unsatisfactory explanations or no explanation will affect the evaluation of your proposal.

**Resources To Be Used**  
**Amount of Time To Be Devoted By Firm's Personnel**

<b><u>Personnel Classification:</u></b>	<b><u>First Yr.</u></b> <b><u>Hours</u></b>	<b><u>Second Yr.</u></b> <b><u>Hours</u></b>	<b><u>Third Yr.</u></b> <b><u>Hours</u></b>
Principal/Partner	_____	_____	_____
Manager	_____	_____	_____
Senior	_____	_____	_____
Staff	_____	_____	_____
Clerical	_____	_____	_____
Other: (Please list)	_____	_____	_____
	_____	_____	_____
Total	=====	=====	=====

Note: Proposal hours will be used in the negotiation of the price. If proposal is only for one year, use first yr. column.

**Time Period of Audit**

1. Estimated Time to Complete the Audit:

	<u>First Yr.</u>	<u>Second Yr.</u>	<u>Third Yr.</u>
a. Expected date for commencement of audit	_____	_____	_____
b. Expected date for submittal of preliminary draft of audit report	_____	_____	_____
c. Expected date for submittal of final audit report	_____	_____	_____

Note. If proposal is only for one year, use first yr. column.

**References**

1.     Client Name:  
  
       Client Contact Person:  
  
       Client Telephone Number:
  
2.     Client Name:  
  
       Client Contact Person:  
  
       Client Telephone Number:
  
3.     Client Name:  
  
       Client Contact Person:  
  
       Client Telephone Number:

Form AUD 101  
Attachment 10

State of Hawaii  
Department of Accounting and General Services  
Audit Division

**Additional Space**

In the event that space provided on any form is not sufficient for entries, or if you wish to furnish additional information, it may be inserted here, or on separate sheets, with appropriate references.

As of this date \_\_\_\_\_, the foregoing is a true statement of facts.

Firm or Individual Submitting Proposal

Type Name and Title of Person  
Authorized to Sign Proposal

Signature

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_